



AXIS Newsletter

December 2023

Welcome to the **FUTURE**

by Michael Simmons

It's been a while since our last conversation. For some of you, this will be your first visit with us. But every journey must start somewhere. Let's begin here:

I want to invite you to listen to a conversation I had this November with James Heaslet, Chief Appraiser for the VA and Mike Schnetzler, Chief Appraiser for USDA. It was billed as a webinar for lenders, but it was more a fireside chat without the fire. Our conversation touched on the issues below. These are 2 important people out there who value you and what you do. You can also add all of us here at AXIS to that list. You'll need to set aside a chunk of time to listen, but I believe it well worth it.

References to bias and languaging timestamps:

5:40 - 18:45

19:30 - 25:00

Click the image to watch now:



Our world of collateral has been buffeted by overwhelming forces. The volume and velocity of these forces struck lenders, real estate agents, appraisers, their respective vendors ... and borrowers. And, yes, that includes AXIS. But these forces like a hurricane, will eventually dissipate and, assuming we survive (and I fervently believe we will), we'll need to rebuild. (There's a line from a song *The Eye* by singer Brandi Carlile that says, "You can dance in a hurricane but only if you're standing in the eye." Great lyric.)

So what does the future hold?

The problem is that catastrophes – whether natural or imposed - always bring change. Let's start by thinking about a couple of those changes and how we can navigate them. To begin, let's explore the words that you're not allowed to use in appraisals anymore and why. And oh by the way, you as appraisers are not alone in being singled out regarding language, although I'm sure it may feel that way. I believe it's part of a bigger social issue. As an example, our colleges and universities are experiencing a similar challenge in improving diversity, equity, and inclusion. The result is that it's magnified the schism between different groups on campus. The effort to create an environment of equity appears to be producing a counterproductive cycle that may even Balkanize this more (I saw that term in an article recently and had to look it up: it's a verb that means to divide factions). The 'solution' is making the problem worse. Why?

Because we have forgotten how to relate to each other. We have abandoned discourse. We attack. We no longer listen. We look for social media outlets that not only tolerate our anger and dissatisfaction, but fuel it. In a very real sense we have lost our way as a society. I used to believe it was a lack of leadership. Now I believe that the cacophony is simply drowning out our voices and stealing any ability to reason.

Why is this important to you as appraisers? Because I can see and hear it as a reaction to some of those impending changes that have already arrived. I'm speaking first and foremost about the 'new' list of forbidden words and phrases for appraisals. Words like 'integrated community', any words that mentions a race (Asian, Hispanic, African American), or 'crime', or 'inexpensive', or religion (Muslim, Jewish, Christian / church, temple, mosque). The list goes on and on ... and will likely grow. Why is there even a list?

Because different words and phrases mean different things to different people – and I am responsible for understanding and respecting that fact. I also believe that words without proper context are open to being misinterpreted or reflective of a perspective that could be biased to the eyes of many. Context matters. If you have an assignment to appraise a house on Church Street in Anywhere USA, the autobots will ping you when you report the address. I wouldn't lose much sleep over those instances.

I also believe there's another goal in mind besides the bias issue with the focus on word choice.

I think the goal today is to move appraisers away from describing impressions, (observational) opinions, (their) preferences – anything that isn't data-related. The role of an appraisal is not to 'sell' a property; that's the Realtor's job. Notice that no one is complaining (at least not yet!) about marketing materials with their flowery descriptive passages meant to evoke emotional connections. An appraiser using the term 'pride-of-ownership' can mean (or imply) something very different to different sets of people. Even if it's not intentional, it can be impactful. So what does an appraiser do?

We need to **re-language** our profession. Can an appraiser have an emotional reaction to a property. Yep ... but they need to separate that out from their job which is to assemble data that correlates to building a value proposition based on similar properties. Each and every appraiser needs to embrace this shift. Capture data, provide clarity, offer analysis. Let the photos 'tell' the emotional part of the story. When was the last time you read an appraisal and the report identified the bedrooms as larger – or kitchen – as being more spacious than a typical, similar property. Appraisers have been conditioned to skip that piece and just make a modest dollar amount adjustment for a general square foot adjustment. Tell that story in your report because that's data and likely valuable information in a market. Let the users (lenders, investors, and, yes, the borrowers) see the property and form their own opinions. Borrowers need to build their own connection to a neighborhood. They will all have their own preferences. The appraiser is here to provide information about the collateral so everyone can make their own informed decision.

The 2nd and final topic today involves the potential tyranny for buybacks ... only this isn't exactly a change. This involves the issue of supporting adjustments. I'm not so sure the rules have changed, just the enforcement. I had it described to me as driving on a road with a posted speed limit of 45 miles an hour yet everyone historically drove 55 to 65 with impunity. Until the posted speed limit began to be enforced.

What's happened is that Lenders and Investors are realizing that when the forces of supply and demand re-balance and inventory increases, competition for buyers will cause the price of homes to soften. Add the factor of higher rates and prices may actually fall. That will erode the value of those securities and put that investment at risk. It won't matter that everyone else didn't catch your failure to properly support your adjustments in the past, you 'broke the speed limit' and that puts you at a very real risk for a potential buyback ... and a visit with your state regulator.

So what do you need to do? Here's some suggested approaches from one of our senior staff QC appraisers:

- ✔ **Avoid boilerplate commentary** - Using the same verbiage from report to report that “paired sales were used to support the adjustments” or “adjustments were determined based on the appraiser’s experience and knowledge” is inadequate.
- ✔ **Learn additional skill sets and methodologies** - Only in the most conforming of properties can paired sales be considered sufficient. And the reality is, these conforming properties can be valued with other valuation tools. There are a variety of methodologies that can be employed to determine your adjustments. Within your report, those should be disclosed. And don't rely on just one methodology. Simple regression and multiple regression data won't always apply, so be sure you know and understand the spectrum of methodologies available.
- ✔ **Write your narrative clearly and thoroughly** - Another deficiency we see, is the failure to clearly and fully communicate the analysis. Brevity is not your friend when it comes to your analysis. Discuss the methodologies employed, the possible range of adjustments indicated by the methodology(ies) used, and how you determined the appropriate adjustments to make. Communication may save you and your client from having to face an inquiry from a GSE buy-back or State Board review.

There are some excellent courses out there these days to assist in relation to data analysis and supporting adjustments, why not choose one of those as part of your CE license renewal process?

Between the issue of how language (potential bias) and what information you shouldn't convey (non-factual or personal perspectives) in your languaging plus the issue of buybacks, there is a 'shift' you need to navigate. The first protects your reputation - and the second protects your livelihood. The focus on factual data is not just part of an assignment - it's THE assignment. And it just might prove to be your shield against potential buybacks or complaints to your state regulator and/or HUD.

That's a lot of 'stuff' for our first Newsletter. I hope it provided some (helpful) information and stimulated you. If you have questions or comments for me you can reach me here: michael@axis-amc.com. We'll do our best to answer them. Perhaps your questions will even be the basis for part of our next conversation.

Thank you for your time today. See you 2024.